Elbit Systems – Q3 25 Results Script

Operator

Ladies and gentlemen, thank you for standing by.

Welcome to the Elbit Systems' third quarter 2025 results conference call. All participants are at present in a listen-only mode. Following management's formal presentation, instructions will be given for the question-and-answer session. As a reminder, this call is being recorded.

I would now like to hand over the call to Daniella Finn, Elbit Systems' VP of Investor Relations.

You may begin.

Daniella Finn

Thank you, operator.

Hello everyone, and welcome to our third quarter 2025 Earnings Call. On the call with me today are **Butzi Machlis, President and CEO and Kobi Kagan corporate CFO.**

Before we begin, I would like to point out that the Safe Harbor Statement in the Company's press release issued earlier today also refers to the contents of this conference call.

As usual, we will provide you with both GAAP financial data as well as certain supplemental non-GAAP information. We believe that this non-GAAP information provides additional detail to help understand the performance of the ongoing business. You can find all the detailed GAAP financial data, as well as the non-GAAP information and the reconciliation, in today's press release.

Kobi will begin by providing a discussion of the financial results, followed by Butzi who will talk about some of the significant developments during the quarter and beyond. We will then turn the call over to a question-and-answer session.

With that, I would like now to turn the call over to Kobi.

Kobi – please.

Kobi Kagan

Thank you, Daniella.

Hello everyone and thank you for joining us today.

We are very pleased to announce another set of quarterly results, with double-digit, year-over-year growth, in revenues, backlog and EPS. Quarterly Free Cash Flow was solid, at 101 million dollars, underscoring our healthy cash generation.

I will now highlight and discuss some of the key figures and trends in our financial results this quarter.

Third quarter 2025 revenues, were 1 billion 922 million dollars, compared to 1 billion 718 million dollars, in the third quarter of 2024. A solid 12% growth in quarterly revenues, year over year and 18% growth for the nine months, ended 30th September.

In the third quarter of 2025, Europe contributed 28%, North America 21%, Asia-Pacific 14% and Israel was 33% of revenues.

GAAP gross margin in the third quarter was 24.9% of revenues, compared to 24% in the third quarter of 2024.

The non-GAAP gross margin for the third quarter was 25.2% of revenues, compared to 24.4% in the third quarter of 2024.

GAAP operating income for the third quarter was 171.4 million dollars or 8.9% of revenues, versus 125.8 million dollars or 7.3% of revenues, in the third quarter of 2024.

Non-GAAP operating income was 186.7 million dollars or 9.7% of revenues, compared with 140.7 million dollars or 8.2% of revenues, in the third quarter of last year. We are very pleased with this margin expansion trajectory.

The operating expense breakdown, in the third quarter was as follows:

- Net R&D expenses were 129.1 million dollars or 6.7% of revenues, compared to 119.9

million dollars or 7.0% of revenues, in the third quarter of 2024. Elbit continues to invest in R&D to secure future profitable growth, which will maintain Elbit's position as a market leader in years to come.

- Marketing and selling expenses were 91.0 million dollars or 4.7% of revenues, versus 91.3 million dollars or 5.3%, in the third quarter of 2024.
- G&A expenses were 86.7 million dollars or 4.5% of revenues, compared to 75.7 million dollars or 4.4% of revenues, in the third quarter of 2024.

Financial expenses were 34.5 million dollars, in the third quarter, compared to 45 million dollars, in the third quarter of 2024. The decrease in financial expenses, net, in the third quarter of 2025, was mainly due to a reduction in the average net debt.

We recorded a tax expense of 11.4 million dollars, in the third quarter, compared to 12.8 million dollars, in the third quarter of 2024.

The effective tax rate in the third quarter of 2025 was 8.2%, compared to 14.6% in the third quarter of 2024. The decrease in the effective tax rate for the third quarter of 2025, was mainly due to the increase in deferred tax assets.

GAAP diluted EPS was 2 dollars and 80 cents, for the third quarter of 2025, compared to 1 dollar and 77 cents, in the third quarter of 2024.

Our non-GAAP diluted EPS was 3 dollars and 35 cents, for the third quarter of 2025, compared to 2 dollars and 21 cents, in the third quarter of 2024.

Quarterly segment revenue for the third quarter of 2025:

Aerospace - Third quarter revenues decreased by 3% year-over-year, mainly due to decrease in Precision Guided Munition (PGM) sales in Asia Pacific, partially offset by the increase in PGM sales in Israel and an increase in Unmanned Aerial Systems sales in Europe. Revenues for the nine months, were up 9%.

C4I and Cyber - revenues increased by 14% year-over-year, mainly due to radio systems and command and control systems sales in Europe. For the nine months, revenues rose by 15%.

ISTAR and EW - revenues increased by 5% in the third quarter of 2025, mainly due to Electro-Optic systems and Electronic Warfare systems sales in Israel and High Power Laser sales in Isreal. For the nine months, revenues increased by 8%.

Land - revenues increased by 41% in the third quarter of 2025, due to ammunition and munition sales in Israel and in Europe. For the nine months, revenues were up 44%.

Elbit Systems of America - revenues decreased by 2%, due to decrease in Electronic systems and medical instrument sales, partially offset by the increase in Maritime and Warfighters systems sales**.** For the nine months, revenues rose 6%.

The order backlog as of September 30th, 2025, was 25.2 billion dollars, 3.1 billion dollars higher than the backlog at the end of the third quarter of 2024, and 1.4 billion dollars higher than the backlog in the second quarter of 2025. The increase in backlog during the quarter came mainly from new European orders. Approximately 69% of the current backlog is derived from orders outside of Israel. Approximately 38% of the current backlog is scheduled to be performed during the remainder of 2025 and during 2026, and the rest is scheduled for 2027 and beyond.

Cash flow provided by operating activities in the nine months ended September 30th , 2025 was 461.0 million dollars, as compared to 82.5 million dollars, in the nine months ended September 30th , 2024. The cash flow in the nine months ended September 30th , 2025 was affected mainly by the strong increase in net income.

On the back of the continued strength of the company's results, the Board of Directors declared a dividend of 75 Cents per share, to be paid on January 5th , 2026.

I will now turn the call over to Mr. Machlis, Elbit's CEO.

Butzi, please go ahead.

Butzi Machlis

Thank you, Kobi.

Hello everyone and thank you once again for joining us today.

As Kobi just described, these results continue the growth and margin expansion trajectory, driven by strong demand for our solutions, particularly in Europe and Israel.

Elbit's seventh consecutive quarter of double-digit growth further demonstrates our global leadership on the modern battlefield. Our recently tested and proven solutions position us as a leading authority in our rapidly changing industry, as defense budgets continue to rise globally and our customers seek cutting-edge, battle-proven systems to secure and protect their populations. Our portfolio of ever-relevant technologies supports our customers' pursuit of advanced warfighter solutions across all domains.

On the back of the strong results, I am proud that we continue to improve the translation of our revenue growth to growth in both profits and cash flow, this is the fifth consecutive quarter where we delivered positive free cash flow and improved the company's cash conversion.

Yesterday we announced the signing of an international contract for a strategic solution for approximately $2.3 billion. The contract will be performed over a period of eight years.

I am extremely pleased with this announcement of the largest contract in Elbit's history, further testament to the superiority of our products and technologies. We will continue to equip our customers with advanced and relevant solutions.

During the quarter, Elbit received another large contract, to supply a European country with a range of our solutions totaling $1.625 billion, to be delivered over the next five years.

The contract includes long-range precision strike artillery-rocket systems and a broad spectrum of unmanned reconnaissance and loitering aerial combat systems, highly sophisticated ISTAR capabilities, including SIGINT, COMINT and electronic warfare systems. Enabled intelligence collection and processing systems will also be delivered, along with advanced electro-optical (E/O) and night-vision systems, combat vehicle upgrade, and protective systems.

New orders also included contracts for our Hermes 900 drones, advanced airborne munitions for the IMoD, and a $260 million contract for DIRCM systems to Airbus.

Following the 12-day campaign against Iran, Elbit has seen growing interest in its solutions, mainly, though not exclusively, for the Hermes drones, EW systems, and training platforms.

Our Hermes 900 played a key role in securing the safety of the fighter jets during the conflict by virtually eliminating the Iranian air defense platforms. The Hermes platform enables us to cross-sell products from other segments and offer our customers comprehensive solutions. Since its first order in 2011, the Hermes 900 has been selected by over 20 customers worldwide.

In August we successfully launched the advanced Jupiter space camera aboard the National Advanced Optical System (NAOS) satellite, supporting a wide span of earth Observation missions, including military operations, environmental monitoring and scientific research. Developed by Elbit Systems ISTAR and EW, Jupiter is one of the world's most advanced space cameras, featuring a very large aperture and an exceptionally lightweight design. The camera is multispectral, offering a combination of imaging channels.

During the quarter we expanded our operations in Europe, opening new facilities in Sweden and Germany, to enhance our local delivery capabilities and ensure more secure, faster support to our customers. Being close to our customers is crucial for us. Our enhanced presence in Europe strengthens our ability to deliver modern and reliable solutions at the pace required to ensure the Armed Forces' capability to defend Europe from its offenders.

In June, we launched PAWS-2, a next-generation infrared missile-warning system for fighter aircraft, designed to enhance their survivability and operational effectiveness. The system detects a wide range of threats, regardless of seeker type and provides advanced protection for fighter jets, transport aircraft, and helicopters operating in complex, high-threat environments.

At DSEI, we unveiled Frontier, a cutting-edge wide-area persistent-surveillance system designed to address the increasing complexity and intensity of border-defense challenges. Frontier autonomously operates multiple types of sensors to visually confirm and classify threats, transmitting only the most relevant analyzed information to the appropriate forces. It leverages advanced artificial intelligence to optimize intelligence gathering and decision-

making across land, air, and maritime domains.

All these notable achievements would not have been possible without our dedicated employees, whose day-and-night commitment to Elbit is truly unparalleled.
I would like to thank each and every one of our outstanding employees for their continued professionalism, growth, and dedication.

And with that, we will be happy to answer your questions.

Q&A

Jordan Lyonnais - Bank of America

Good morning/Afternoon. Thanks for taking the question. With the ceasefire in place now in Isreal, how are you thinking about future domestic demand? and if we do see a slowdown in the domestic bookings, how should we think about the trade off with margins, as revenues start to skew more towards international?

Kobi Kagan

Thank you Jordan. If we look at this quarter our backlog increased by $1.4 billion, $200 million from Israel and $1.2 billion internationally. Going forward, we are looking for flattish backlog growth in Israel and for most of the backlog growth to come from outside of Israel, predominantly from Europe. Considering our funnel and current demand, we see future growth opportunities predominantly in Europe.

Seth Seifman - J.P. Morgan.

Afternoon everyone. I wanted to ask about the Aerospace business and where it goes from here given we saw the decline in the quarter. How should we think about the trajectory in that business going forward? I know you mentioned some decline in sales to Asia, but also, some drone orders during the quarter. So where does that go from here?

Butzi Machlis

Good morning Seth. I believe that we will continue to see growth in the Aerospace segment. Our avionic solutions are embedded on most of the Western platforms as well as our Helmet Mounted Displays (HMD) which are sold in numerous countries, not only in the US. The platforms include Boeing and Lockheed Martin and other OEM sales internationally.

I believe that this market will continue to grow for us. Additionally we see strong demand for our UAVs and loitering munitions. Over 20 international customers who have already purchased our Hermes-900 platform. We provide not only the platform, but an integrated solution, which includes additional equipment on top of these platforms such as sensors and other payloads, which provide a unique offering to our customers. We see the market growing not only for MALE UAVs, but also for smaller UAVs and loitering munition solutions which are all part of the Aerospace segment.

Kobi Kagan

To further add on Buzi's answer, if we look at the growth of the last three quarters, over the same period last year, the Aerospace segment grew 9%. We think that the relevant growth for revenues in this segment is single digit as this segment leans predominantly on the US acquisition budget which is growing single digit as well.

Seth Seifman

Thanks. If I could add one follow up question. Can you talk a little bit more about the opportunities that are emerging in directed energy field? We've seen some of the progress in Iron Beam, are you seeing a lot of opportunities emerge for directed energy solutions outside of Israel as well?

Buzi Machlis

Thanks Seth. The answer is yes. As you know, we are part of the Israeli program for deploying the High Power Laser. The laser solution within the Iron Beam is developed by Elbit Systems and the first system is expected to be deployed by the end of this year. I believe that next year we'll see many more orders here in Israel for ground High Power Laser systems based on the current success of the Iron Beam. There is a lot of interest for the ground High Power Laser systems also outside of Israel as it is evident that our technology works.

In Israel we lead the development of the airborne High Power Laser system. It's currently in the development phase, and I believe that this airborne High Power Laser would be a game changer in the way countries address threats such as UAVs, swarms and cruise missiles.

We are not developing only High Power Laser solutions, we are developing a variety of unique energy weapons which are in an advanced stages of development. I believe energy weapons will be a future growth engine for the company.

Ellen Page - Jefferies

Hi, guys. Margin was very strong in the quarter on a year over year and sequential basis. Can you discuss the drivers of that? And was there any element of mix that supported profitability in the quarter? And how do we think about the progression of margins from here?

Kobi Kagan

Hi Ellen? There is a very strong expansion in margins in this quarter, Year over Year, as you indicated, which comes from a 0.9% improvement, just shy of 1%, in the gross profitability of the company. An additional improvement of 0.6% comes from the operating leverage. This is the result of the improvement in our backlog profitability and in a focus on operational excellence, which include advanced AI processes that were introduced for various operational uses. These processes are driving both gross and operating profitability. This is the first quarter in a while where we witness expansion of both gross and operational profitability. In addition, our CAPEX investments fruits are contributing to this increased profitability.

As previously mentioned, the fully operational One ERP system continues to improve our operational excellence and yielding better margins as well as the automation and use of Robots and Cobots on the production lines, mainly in the munition and ammunition facilities.

Finally, the increased revenues create an economy of scale and operational leverage that increase profits.

Ellen Page

Thanks that's very helpful. And how do we think about the impact of less operational disruptions assuming the ceasefire holds, is that an opportunity for another step up from here?

Kobi Kagan

We are all very relieved by the current ceasefire after two years of conflict, we all prayed for it, and we hope it will be maintained going forward. The ceasefire allows the company to regroup as our people come back from mobilization. That said, Elbit's sales are for the most part international, about 70% of the business comes from abroad. The ceasefire will allow us to invest more efforts in our international business as it was prior to October 7th. It will serve to increase our global opportunities and backlog.

Questions from Chen Keret - Excellence

Has there been any update to the company's profitability target for 2026, the 10% operating profit, following the expansion of the order backlog and the improvement in gross margins in the current quarter?

Kobi Kagan

Thank you Chen, as you know, we don't provide guidance. We will maintain our internal targets to continue to improve our profitability. We will also focus on improving our cash conversion, which is a key target for the company.

The second question from Chen - How does Elbit plan to generate added value from the significant expansion in the US DoD's budget. Specifically, is there a concrete plan to pursue an M&A transaction in the US and or to expand into verticals such as drone swarms or border protection application?

Buzi Machlis

Thank you, Chen. The US market is a strategic market for Elbit Systems and I am very pleased with our performance in the US. The last two acquisitions that we made, the Night Vision activity and Sparton, the Sonobuoys activity, were both very successful and are both growing. We certainly are continuing to look for opportunities for acquisitions in the U.S and are exploring the market.

In the US we also delivered a system to the CBP for border protection, where our equipment is deployed along the borders. The current need for additional systems along the borders is very relevant to us, and we plan to pursue additional opportunities with the CBP.

Additionally, our avionics business as well as our Active Protection Systems which are deployed on the Bradley Fighting Vehicles are all growing. We plan to continue to invest in the US and recruit additional employees in order to solidify our position in this very important market.

There are no further questions. Mr. Machlis, please continue with your closing remarks.

Butzi Machlis

I would like to thank everyone on the call for joining us today and for your continued trust and support of Elbit.

Have a good day and goodbye.